KeyCorp
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Cleveland, Ohio 44114-1306

July 9, 2004

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th and C Streets, N.W.
Washington DC 20551
VIA E-MAIL

Re: Proposed Risk-Based Capital Standards - Trust Preferred Securities and the Definition of Capital - Docket No. R-1193

Dear Ms. Johnson:

KeyCorp ("Key") appreciates the opportunity to comment on the proposed regulatory modification to Regulations H and Y that will permit continued use, within certain quantitative limits, of trust preferred securities in the Tier 1 capital of bank holding companies. We believe that the revised regulations provide valuable clarity to the capital regulations and will retain trust preferred securities ("TPS") as a valuable source of Tier 1 capital.

About KeyCorp

Cleveland-based Key is one of the nation's largest bank-based financial services companies, with assets of approximately $85 billion. Key companies provide investment management, retail and commercial banking, consumer finance, and investment banking products and services to individuals and companies throughout the United States and, for certain businesses, on a limited international scope. The company's businesses deliver their products and services though branches and offices and a network of approximately 2,200 ATMs.

General Comments

Key has effectively utilized TPS as important component of its capital structure since they were developed and explicitly approved for use by the Federal Reserve in late 1996, and has periodically issued additional TPS. Currently, Key has $1,293,000,000 of TPS outstanding, consisting of seven trusts held by a large, diverse group of institutional and retail investors. At March 31st 2004, this amount comprised 18.4% of our tier 1 capital base and 12.2% of our total regulatory capital base.

TPS have been the preferred source of tax-deductible Tier 1 capital for Key due to the structure's relative simplicity and low all-in cost, although we recognize the existence of other forms of tax-efficient tier 1, such as REIT Preferred stock.

Key's shareholders have benefited from the tax-deductible nature of the payments on the security, unlike dividends on common and preferred stock, which must be paid from after-tax earnings. We believe that use of this security has enhanced the overall safety and soundness of the institution for depositors, as well as our senior and subordinated debt holders.

The development of the pooled trust preferred market for smaller banks is evidence of the popularity of the structure and of its important, though limited, role in the capital structure of all bank holding companies.

Key believes that it is imperative that TPS remain a viable source of tax-efficient tier 1 capital. This relatively low-cost source of tier 1 ensures that capital adequacy regulation will not be a significant source of competitive inequality among internationally active banks and facilitates the industry's competitive position against non-banks.

With this in mind, we believe some small revisions to the proposed changes would benefit the industry and enhance certain important structural considerations within the standard security:

Develop a more explicit definition of internationally active BHC's

The Board has proposed to make explicit the general expectation that internationally active BHC's limit the amount of restricted core capital elements to 15 percent of the sum of core capital elements, including restricted core capital elements, net of goodwill. For this purpose, you have defined "internationally active" as a bank that has significant activity in non-U.S. markets or that is considered a candidate for the Advanced Internal Ratings Based Approach under the proposed Basel II. Key recognizes the importance of aligning U.S. domestic capital regulations closely with Basel II. However, we believe that a more explicit and narrower definition of "internationally active" is necessary. We recommend that the Board explicitly state a quantifiable bright line threshold for the defining measure, but will leave the determination of the threshold level for the Board to establish.

Exclude from the definition of "internationally active" those banks designated as candidates for Advanced IRB

A number of large banks that are considered candidates or intend to 'opt-in' to the Advanced IRB Approach may not be, under the Basel II definition, internationally active banks with significant non-U.S. asset holdings. Key would fall into such a classification. Indeed, while very large banks with substantial foreign asset holdings have adhered to the more restrictive 15% core capital limitation for TPS over the last several years, Key and similar-sized BHC's have continued to use the 25% limit.

It is important to note that Key, and perhaps other banks that are candidates for the Advanced IRB Approach, will view the 15% restriction as a substantial Basel II implementation cost. In fact, this cost may for some banks negate the benefits from the Advanced IRB and when included with implementation costs may discourage BHC's from choosing to "opt-in".

For Key, moving from the 25% to 15% limitation reduces our TPS issuance capacity by $896 million, using March 31, 2004 pro forma data (see Figure 1 below). A current position of $612 million available TPS capacity will be reduced to a $284 million shortfall position. While Key can build its equity position to eliminate the shortfall, the additional common or cumulative preferred will be more expensive than the TPS it must replace. We also believe that, in normal market conditions the cumulative preferred stock market is not as liquid as the trust preferred market and thus there can be a loss of liquidity for banks. We feel that this increased cost will primarily manifest itself in the cost of acquisition funding for "internationally active" banks.

Figure 1

Capacity Analysis using Current and Proposed Capacity Limits

	March 31, 2004	
Core Capital Calculations	Proposed Rule	Current Rule
Unrestricted Core Capital Elements		
Common Shareholders Equity *(net of gains/losses on AFS portfolio)*	$ 6,927,000	$ 6,927,000
Non-cumulative perpetual preferred	0	0
Class A Minority Interest	0	N/A
Sub-Total	$ 6,927,000	$ 6,927,000
Less: Goodwill	$ (1,214,000)	$ -
Core Capital before TPS	$ 5,713,000	$ 6,927,000
+ Trust Preferred	$ 1,292,000	$ 1,292,000
Total Core +Trust Preferred	$ 7,005,000	$ 8,219,000
Capacity for Trust Preferred	Proposed Rule	Current Rule
Trust Preferred: 33.0% of core before TPS	$ 1,904,333	$ 2,308,977
Trust Preferred: 17.4% of core before TPS	$ 1,008,176	$ 1,222,412
Remaining Capacity for Issuance	Proposed Rule	Current Rule
Trust Preferred up to: 25% of core	$ 612,333	$ 1,016,977
15% of core	$ (283,824)	$ (69,588)

Current KeyCorp %'s	Current	15.72%	of $8,219 mm Core +TPS
	Proposed	18.44%	of $7,005 mm Core +TPS

Eliminate the Call Option Requirement

Key recommends eliminating the call option requirement on TPS and allow the market to determine whether such calls are necessary as part of the TPS structure. We believe that eliminating the call option requirement will help reduce the cost of securities targeted to institutional investors and make the institutional market more cost competitive with the retail TPS market. At present, qualifying TPS must be undated and provide for a minimum of twenty consecutive quarters of dividend deferral, as well as a call at the BHC's option commencing no later than ten years from issuance.

Key's outstanding TPS incorporate several types of call options, including call options with a premium strike price, call options set at par, and "make-whole" call options that can only be exercised following a tax or capital "event". While Key recognizes that call options provide the issuer with increased management flexibility, and conversely, the investor with increased uncertainty of potential investment return, this flexibility comes with a cost to the issuer. This cost is calculated by sophisticated institutional investors and incorporated in the cost of the transaction, whether or not the BHC ever exercises the option, and our shareholders ultimately absorb this cost. Key has successfully repurchased and replaced a portion of its outstanding securities through open market negotiated purchases, providing proof that an acceptable degree of capital management flexibility exists even without the option to call the security. Eliminating the call option requirement will provide certain institutions a small offset to the increased cost of capital resulting from the tighter limitations.

In conclusion, Key strongly supports the Board's efforts to strengthen the definition of regulatory capital for bank holding companies and we look forward to seeing the final rule. Key is prepared to provide further input to the Board's deliberations on this topic. Please feel free to contact Louis Raffis (216-689-5357 Louis_D_Raffis@Keybank.com) with further questions or comments.

Sincerely,

/s/ Joseph M. Vayda

Joseph M. Vayda
Executive Vice President & Treasurer